



**BUDGET VOTE ADDRESS BY THE MINISTER OF ENERGY, Ms DIPUO PETERS**

**TO THE NATIONAL COUNCIL OF PROVINCES**

**22 APRIL 2010**

**Chairperson,**

**Honourable Members,**

In September last year, working together with Ezingoleni Municipality in Kwa-Zulu Natal, we launched the Safe Illuminating Paraffin Stoves Project at the town of Ezingolweni.

As we did that we were once again reminded of the scale of poverty and underdevelopment that characterize those communities. In particular, what stood out was the plight of one resident who barely had a house to live in, let alone the bare necessities for survival. Working together with the business leaders of the area, we were able to offer the lady and her two teenage sons a home and a sense of hope for a better tomorrow.

There was also a story that was shown on television last year of the death of three children, from KwaZulu-Natal, who died when the generator they were using exploded.

This happened after they had travelled for 10 kilometers to watch the soccer game between our national soccer team, Bafana Bafana and Uruguay.

It is these tragic events that continuously remind us of the enormity of the tasks that are facing the democratic developmental state as it seeks to usher in a new era in energy planning, modeling, forecasting and service delivery.

Tomorrow, the 23<sup>rd</sup> of April, I will be travelling to Grahamstown at the invitation of our national oil company, PetroSA, to participate in the opening of 8 classrooms at a primary school that was established by the nuns of the Anglican Church in 1844. The new structures will provide a science and computer lab for 200 children. We are going there to offer these children a sense of hope and a promise of a better tomorrow. PetroSA a subsidiary of the Central Energy Fund, has to date spent a total of R260 million in such initiatives since 2002.

## **Electrification**

Honourable members, for us to achieve social justice, we will continue with the implementation of the national electrification programme as a vehicle for social change. Despite the challenges faced by my Department in relation to the implementation of this programme, we have nevertheless made significant progress.

I must indicate that, out of the total of 237 local municipalities, 128 of them will eradicate existing backlogs with regard to the electrification of formal households by 2011/12.

The majority of these municipalities are in Gauteng, North West, Western Cape, Free State, Mpumalanga and the Northern Cape. My department will accordingly prioritise the extension of the rural electricity network capacity to ensure that the rural communities of Limpopo, kwa-Zulu-Natal and the Eastern Cape achieve the same level of electrification as the Provinces mentioned above.

To indicate our commitment to the goal of making sure that we prioritise these provinces, 64% of the total allocation of R2.8 billion has been allocated to the three provinces.

In this regard, we have identified the municipalities which have less than 5000 electrification to achieve universal access and are as follows:

<b>PROVINCE</b>	<b>Total number of local municipalities</b>	<b>Targeted municipality (Less than 5000 Backlogs)</b>	<b>Municipalities with backlogs more than 5000</b>	<b>Amount to be spent by 2011/12 (R million)</b>
<b>Eastern Cape</b>	<b>38</b>	<b>14</b>	<b>24</b>	<b>R 167.00</b>
<b>Free State</b>	<b>20</b>	<b>17</b>	<b>3</b>	<b>R 198.00</b>
<b>Gauteng</b>	<b>12</b>	<b>4</b>	<b>8</b>	<b>R 80.00</b>
<b>Kwazulu Natal</b>	<b>51</b>	<b>11</b>	<b>40</b>	<b>R 180.00</b>
<b>Limpopo</b>	<b>25</b>	<b>18</b>	<b>7</b>	<b>R 270.00</b>
<b>Mpumalanga</b>	<b>18</b>	<b>4</b>	<b>14</b>	<b>R 35.00</b>
<b>North West</b>	<b>21</b>	<b>11</b>	<b>10</b>	<b>R 216.00</b>
<b>Northern Cape</b>	<b>27</b>	<b>26</b>	<b>1</b>	<b>R 94.00</b>
<b>Western Cape</b>	<b>25</b>	<b>23</b>	<b>2</b>	<b>R 186.00</b>
<b>TOTAL</b>	<b>237</b>	<b>128</b>	<b>109</b>	<b>R 1,426.00</b>

All metros have been left out of these arrangements, except Ekurhuleni (where 64 000 formal households still have to be electrified).

In this regard, the rest of the metros will work on eradicating their backlogs and this they will do through the Department of Human Settlements' breaking new ground programme.

### **Distribution infrastructure**

I am pleased to report that restructuring of the distribution side of the electricity network has gained tremendous momentum over the past year. The state of readiness for the consolidation of the 187 municipal electricity distributors and ESKOM distribution into the six viable Regional Electricity Distributors (REDS) as directed by the Cabinet decision of 25 October 2006, has reached its highest level ever. Working together with SALGA, Mayors, Councilors and officials of the 147 municipalities, out of 187 that distribute electricity, EDI holdings has signed Accession to Cooperative Agreements with these entities. They have subsequently committed themselves to actively participate in the EDI restructuring process.

Furthermore, over 30 municipalities, which together with ESKOM constitute about 90% of the entire electricity distribution in the country, have undertaken the process of ring fencing their electricity distribution assets in preparation of incorporating their electricity distribution assets into the REDs. Thus far, EDI Holdings, has spent about R62 million to assist municipalities and ESKOM with the ring fencing exercise.

The huge backlog in maintenance, refurbishment and investment in EDI infrastructure, which is estimated at no less than R27 billion continues to be a major challenge. This continues to have a negative impact on service delivery. The government has established an Inter-Ministerial Committee on Energy to amongst others, urgently redress this situation. The process of integrating this programme into the overall Local Government Turn Around Strategy of government is underway.

The main focus in the months ahead for my Department and its implementation agent, EDI Holdings, is to ensure that all stakeholders agree as soon as possible on the implementation plan to ensure the acceleration of the establishment of the six wall-to-wall REDs as agreed upon by Cabinet.

We expect the Department of Justice and Constitutional Development to finalize the processing of the proposed 17<sup>th</sup> Constitutional Amendment after which we will table the REDS Establishment Bill.

### **Impact on the poor**

As electricity tariffs increase, our main concern is its impact on the impoverished.

We will mitigate the adverse impact of tariff increases on the poor through a number of mechanisms over and above the Free Basic Electricity Programme. The first mechanism, is based on inclining block tariffs, and the second one is related to the savings on the electricity bill derived from the solar water heating programme.

For example, the tariff increase applicable to the indigent will be the lowest part of the block tariff proposed by NERSA, and this is (minus 10%) for year 1 for consumption

below 50 units per month, followed by 5.4% for year 2 and 5.5% for year 3. The highest increase is applicable to customers who consume more than 350 units per month which is in line with the 'user-pays' principle.

We will work with COGTA and the National Treasury to sort out the funding of municipalities in so far as electricity distribution infrastructure is concerned. We need municipalities on our side as energy champions, we call on them to apply surcharge increases in a manner that is sensitive to the circumstances of the indigent and also appeal to the honourable members to support the restructuring of this sector.

### **Energy efficiency and demand side management (EEDSM)**

In order to encourage energy saving, a financial incentive scheme will be introduced (to be known as the standard offer), in terms of which project developers will be able to claim a rebate in respect of the amount of energy they have saved from the electricity system.

It is expected that these interventions will emanate from:

- the residential sector (e.g. the replacement of incandescent lighting with energy saving bulbs),
- the industrial sector (e.g. the power conservation program in terms of which key industrial customers will be able to claim incentives due from less energy intensive production methods)

- the commercial sector (e.g. energy efficiency interventions like improved insulation in buildings),

We intend to intensify energy efficiency in the estimated 100 000 public buildings which will be retrofitted to comply with energy efficiency standards. We urge the Department of Public Works to ensure that all provincial governments participate in this project. We once again call upon the hospitality industry to embrace the spirit of this campaign.

In this regard Sol Plaatje Municipality has been allocated R54 million out of the fiscus under the EEDSM programme for the installation of the 5000 Solar Water Heaters. This major programme will be launched this year.

We would like to congratulate the Dept of Arts and Culture for working with SANERI in making Robben Island one of our major greening projects.

### **Solar water heaters**

One of the key interventions in EEDSM, is the Solar Water Heater (SWH) program, in terms of which we are making a commitment to progressively deploy the SWH for water heating in all residential dwellings. The outcomes of this program are expected to include:

- electricity demand reduction (3 600MW),
- localization of SWH technology (design and production),
- climate change mitigation,

- job creation as well as skills development.

You may be aware that next week, the 28 April ( a day after Freedom Day) President Zuma will launch the first massified solar water heater project in Winterveldt. This is a precursor to numerous other SWH projects, which will ultimately result in the displacement of coal by the sun as an energy carrier for water heating in this country.

Working together with the DPSA, we are finalizing the details of a programme that will see the participation of the more than R1million Public Servants in the solar water heating initiative. Let me reiterate that these solar water heaters will be made available virtually free of charge.

### **Working for Energy Programme**

This year, the Department will be launching the Working for Energy Programme, with the primary objective of using the feedstock created from clearing alien biomass vegetation to produce power. We are happy to announce that we are working with Municipalities and the Department of Water Affairs with regard to waste to energy projects.

### **Integrated Energy Centers**

Honourable members, we would like to re-affirm our commitment to establishing more IeCs throughout the country in order to reduce the impact of energy poverty. This programme is one of the vehicles that the Department is using to contribute to government's commitment to rural development and sustainable job creation.

An Integrated Energy Centre (IeC) is a one-stop energy shop **owned and operated by community Co-operatives** and organised as a community project. The IeCs act as community information hubs and “energy shops” that sell illuminated paraffin (IP), liquid petroleum gas (LPG), candles, petrol and diesel from oil companies and sell these products directly to the community at more affordable prices.

The Department, working together with the affected stakeholders, is currently reviewing the IeC sustainability strategy that was developed in 2005 in order to ensure that these IeCs are achieving the desired results.

Discussions are underway with the Department of Rural Development and Land Reform to ensure that the IeC programme is aligned with the Comprehensive Rural Development Programme (CRDP).

This year we intend to launch two IeCs; one in King Sabata Dalindyebo (KSD) and Mbizana Local Municipalities in the Eastern Cape. My department is also actively involved in assisting operating IeCs in places like Ratlou in the North West Province, Mutale in Limpopo, Moshaweng and Kgalagadi municipalities in the Northern Cape.

### **Safe illuminating paraffin stoves**

Illuminating Paraffin (IP) is the most commonly used and purchased fuel source for low-income communities in the country and is used in varying degrees by almost half of all South African homes. Like all other fuels, IP is a hazardous substance which when not

properly handled or used can result in unacceptably high levels of harmful human, financial and economic consequences. To address this problem, the Department together with CEF has embarked on a pilot program to test the efficacy of new safer illuminating paraffin appliances in areas previously devastated by paraffin related fires. These areas are:

- Alexandra in Gauteng with 350 beneficiaries;
- Ezingoleni in Kwazulu-Natal with 350 beneficiaries;
- Mbizana in the Eastern Cape with 150 beneficiaries; and
- Emizamoyethu in the Western Cape with 350 beneficiaries.

The monitoring and evaluating consultants will issue a close out report to the department in June 2010.

## **PETROLEUM LICENCING**

Honourable members, out of 15 400 licences lodged, 12 431 have been processed.

For the 2009/10 financial year, 3 041 licences have been processed.

From the 1 April 2010, all regional offices were up and running and applications can now be lodged in the regions.

I have instructed the department to process licence applications within the stipulated time of 90 days, with the ultimate aim of reducing that time.

The licensing of petroleum business activities also assists the Department to monitor and enforce the Economic Empowerment of historically disadvantaged South Africans as outlined in the Liquid Fuels Charter

### **The role of the National Oil Company - PetroSA's and its Current Initiatives**

The National Oil Company, PetroSA, is pursuing a number of strategic initiatives aimed at enhancing the national security of energy supply. One of these initiatives is project Mthombo, whose main objective is the construction of a crude oil refinery in Coega. My department is currently evaluating information which will enable Government to take a decision on proceeding with the Front End Engineering and Design phase.

### **Sustainability of Mossel Bay GTL Refinery**

The GTL refinery is PetroSA's main revenue generator and supports a total staff complement of about 1800 workers. It has generated thousands of jobs in, and around the Mossel Bay and greater Southern Cape region, leading to a massive direct and indirect impact on the local economy. It continues to provide support to the local business community and has generated income through wages and salaries for most families in the area.

There is continued search for oil and gas resources, with the primary aim of further sustaining operations at the Mossel Bay GTL Refinery beyond its current estimated economic life. To this end, there is ongoing exploration off the coast of Mossel Bay.

## **Gender and youth**

Chairperson, our will to facilitate the participation of Women and Youth in the Energy sectors saw South Africa being given the opportunity to host the International Youth Nuclear Congress (IYNC) in June this year. This should be viewed as an achievement for our youth programmes.

My department is pleased to also announce that we have already started to enjoy the benefits of our efforts in facilitating the empowerment of women through Women Sector groups. WOESA (Women in Oil and Energy) WinSA (Women in Nuclear South Africa) and SAYNPS (South African Youth Nuclear Society) are making significant progress in the empowerment arena.

As part of our drive to include more women and youth particularly in the rural areas, my department has embarked on road shows and community outreach programmes. These road shows afford us an opportunity to share information with women who are interested in the sector and those who need information on the opportunities and programmes that are available in the Energy sector. Thus far, four provinces have been visited i.e. Limpopo, Mpumalanga, Northern Cape and North West.

Honourable members, this budget vote is tabled for your consideration.

I thank you!

